

STATEMENT OF CLAUDE S. BRINEGAR, SECRETARY OF TRANSPORTATION,
BEFORE THE TRANSPORTATION AND AERONAUTICS SUBCOMMITTEE OF THE
HOUSE INTERSTATE AND FOREIGN COMMERCE COMMITTEE ON H.R. 13824
AND H.R. 14266, ON TUESDAY, JUNE 25, 1974.

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you today to discuss problems affecting overseas operations of U.S. flag air carriers, especially those in the North Atlantic trade. In addition, I will comment particularly on two proposed Bills that are addressed to these problems, H.R. 14266, the International Air Transportation Fair Competitive Practices Act of 1974, and H.R. 13824, a bill to provide financial assistance to U.S. air carriers engaged in overseas and foreign air transportation.

It is widely recognized that the U.S. flag air carriers are experiencing serious financial problems in their overseas operations. Pan Am and TWA have applied to the CAB for subsidies

of nearly \$300 million. In addition, the supplemental air carriers operating on the North Atlantic are, as a group, projecting overall losses for 1974.

The immediate cause of these financial difficulties is the very rapid increases in fuel prices since last October. But while we recognize that these increases are causing severe short-term problems, we believe that they have also brought to the front a more serious problem that is deeply rooted in the overall regulatory process that determines the competitive structure and practices of the airlines that connect the U.S. to other countries--especially those in Western Europe. There is clear evidence that this regulatory process is today working to the disadvantage of U.S. flag carriers.

As we seek solutions to this problem I believe we must be guided by these long-term objectives:

1. International air passengers and cargo shippers need access to adequate, reliable, and low-cost service between the U.S. and foreign countries.

2. The fares and tariffs for such service should be reasonably related to the long-term costs of providing the service.
3. The U.S. air carriers should have a fair and equal opportunity to compete in international markets on terms that permit long-term economic viability.
4. Existing U.S. bilateral and multilateral air agreements must be respected.

For the past three months the Administration has had an Interagency Task Force working on the question of how to solve--within the framework of these objectives--the problems of the poor financial health of the U.S. flag carriers in international service. From this work we have developed an Action Plan that we believe is the necessary first step to a solution. If this plan is successful, as we believe it will be, it should avoid the need for additional legislation or short-term subsidies.

The plan is based on a directly-focused approach, with specific assignments, to improving conditions in five

major problem areas: (1) a series of steps to deal with rates that are too low relative to costs, or too complicated, or not properly enforced; (2) a continued effort to identify routes that should be abandoned, or combined with those of another carrier, because of low market potential; (3) the development of agreements or other ways to reduce capacity that is far in excess of likely country-to-country market demand; (4) a "fly U.S. flag" program to encourage U.S. residents to use U.S. flag carriers as much as possible as they travel abroad; and (5) the reduction of indirect foreign discrimination against U.S. carriers, through such practices as excessive navigation and landing fees.

Various Administration groups are responsible for different parts of this program, which is now being carried out. Following are the major details:

The State Department and the Department of Transportation, as well as the Civil Aeronautics Board, are urging the scheduled international air carriers to agree on near-term rate increases to recover, at least partly, recent fuel price hikes, as well as taking steps to simplify overly complex rates. The CAB also has an investigation underway into the possible need to

raise international mail rates to reflect higher fuel and other costs and to eliminate or raise the special very low-cost military fares used by the Department of Defense.

The Department of State and the Department of Transportation are also encouraging, with CAB approval, the non-scheduled carriers to agree on cost-related charter rates, and the CAB has initiated a proceeding on this same subject. In addition, the CAB has stepped-up its efforts to prevent various kinds of illegal fare practices. The need for possible additional regulations in this latter area are also under study by the CAB, the Department of Transportation, and the Department of Justice.

We believe there is also a possibility of further improvements by Pan Am and TWA through light-density route and service suspensions or by route consolidations. Our department will continue to explore the opportunities with these two carriers, as well as encourage them to initiate proposals.

Agreements to limit or reduce aircraft capacity must be approached carefully, because they are, by their very nature, anti-competitive. Yet, we agree that the current North Atlantic

transport capacity is excessive and that some restraints are in order. In addition to agreements with the U.K. and Italy, we are taking steps (through the Department of State) to reach agreements with France and West Germany. There is also a need to balance the capacities now flown to the U.S. by several smaller nations to something that is more closely related to the direct country-to-country traffic demand.

There is a strong need for an intensified effort to encourage U.S. citizens to "fly U.S. flag" in international travel as much as possible. In 1973, for example, 62% of travelers leaving the U.S. were U.S. citizens, yet U.S. flag airlines carried only 54% of the traffic. It is well documented that various foreign countries have a variety of ways (including currency controls) that are successful in encouraging their citizens into use of their airlines. The Department of Commerce has been given the lead assignment in developing a more aggressive "fly U.S. flag" program. I think there would be merit in GSA action to require U.S. contractors, when traveling overseas on official business, to fly U.S. flag whenever feasible.

The Department of Transportation has formed a special interagency group to determine the extent to which excessive foreign airport and airway user fees are being charged to U.S. flag carriers. Flagrant cases will be referred to the Department of State for handling through bilateral negotiations. The proposed CAB amendment to "Part 213," when effective, should provide the needed leverage.

We well recognize that not all the above steps will be successfully carried out, or at least not in the near-term. Yet, on balance, the odds are good that enough of them will succeed so that the need for direct subsidy payments to Pan Am and TWA can be avoided. For example, last week IATA agreed on a 5% rate increase for the North Atlantic, effective August 1, 1974.

It is our judgment that the approach outlined above is the proper one at this time. Our analyses of the financial positions of Pan Am and TWA do not suggest a near-term financial crisis. We recognize that if the present situation continues unchanged for another 12 months it may be necessary to reconsider this position, but for now, at least, we cannot support a subsidy. Also, we believe both airlines, despite solid past accomplishments, still have opportunities to reduce costs.

And now I will briefly comment on the proposed legislation.

We would particularly oppose H.R. 13824, which proposes a fuel subsidy related to the difference in cost of fuel used in overseas and foreign air transportation during the 12 months ending November 1, 1973, and the average cost for fuel used after that date, with offsets for fuel related fare increases. Such an approach is especially undesirable, for these reasons:

1. It would take off the pressure to make the improvements in competitive conditions outlined in the above Action Plan.

2. It would reduce the incentive for air carrier managements to negotiate the lowest possible foreign fuel contracts.
3. It would tempt foreign governments to raise jet fuel prices with indirect taxes.
4. It would give subsidy payments to airlines operating at a profit (such as Braniff).
5. It would open the door for similar payments to non-air carriers that must purchase fuel overseas, such as cargo ship operators.

H.R. 14266, the International Air Transportation Fair Competitive Practices Act of 1974, addresses a number of issues which have affected the profitability of U.S. carrier operations overseas. These issues are international user charges and discriminatory practices, rates for the transportation of mail in foreign air transportation, transportation of government-financed passengers and property, and the promotion of travel on U.S. carriers. As outlined above, the Department is quite concerned about discriminatory measures being applied by other

governments to U.S. air carriers, and the Action Plan puts heavy emphasis on use of the bilateral agreements machinery to address these problems. I believe that many of the inequities can be corrected without additional legislation. At the same time we must recognize that legislation would not be effective in addressing some of the grievances, which can only be dealt with effectively on a government-to-government basis.

In particular, we are concerned that Section 3, which would require charges being imposed on U.S. operations of a foreign air carrier if that country levies unreasonable or discriminatory charges on a U.S. carrier, would violate our international agreement, known as the Chicago Convention, and might invite retaliation by foreign governments.

Section 4 of H.R. 14266 involves the rate for the transportation of mail in foreign air commerce. As mentioned above, I believe that an appropriate CAB proceeding is the proper approach.

Section 5 of the bill directs the Secretary of Commerce to encourage to the maximum extent feasible travel to and from the U.S. on U.S. carriers. This is a worthwhile program and,

in fact, is dealt with in the Action Program. It does not require legislation.

Mr. Chairman, this concludes my prepared testimony. And now either I or my colleagues will be happy to answer any questions which the Committee may have.

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